

Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC IMMEDIATE 2248

INFO AMCONSUL MONTREAL PRIORITY

AMCONSUL QUEBEC PRIORITY

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POUCHED TO ALL OTHER CANADIAN CONSULS

DEPT PASS TREASURY, FRB, CEA

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TAGS: EFIN, PINT, CA

SUBJECT: REACTIONS TO LEVESQUE'S NEW YORK SPEECH, JANUARY 25

REF: MONTREAL 124

1. SUMMARY: LEVESQUE'S SPEECH BROKE NO NEW GROUND. BUT FORCE WITH WHICH HE PRESENTED "INEVITABILITY" OF QUEBEC POLITICAL INDEPENDENCE SHOCKED AND SURPRISED NEW YORK AUDIENCE. REACTION BY NEW YORK FINANCIAL COMMUNITY WAS REPORTED TO BE COOL. PROVINCIAL GOVERNMENT WILL PROBABLY BE UNABLE TO BORROW IN NEW YORK CAPITAL MARKET IN ITS OWN NAME FOR SOME TIME, AND OTHER BORROWERS SUCH AS HYDRO QUEBEC WILL PAY HIGHER INTEREST RATES. IN QUEBEC LEVESQUE SCORED POINTS WITH PQ SUPPORTERS FOR STICKING SO HARD TO INDEPENDENCE GOAL. BUT HE MAY BE VULNERABLE AMONG NON-PQ VOTERS FOR ACTING AS IF INDEPENDENCE HAD ALREADY BEEN APPROVED BY ELECTORATE. TRUDEAU THINKS SO, AND HE ATTACKED

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SHARPLY ON THAT POINT THIS AFTERNOON. ENGLISH CANADA APPEARS HORRIFIED THAT LEVESQUE WENT TO NEW YORK TO "DESTROY CANADA". NET EFFECT OF SPEECH IS TO HEIGHTEN PUBLIC DEBATE ON SEPARATION. END SUMMARY.

NEW YORK REACTION

2. EMBASSY AND CONGEN MONTREAL CHECK OF LEADERS IN THREE MAIN

GROUPS WHOM LEVESQUE MET IN NEW YORK (UNDERWRITERS, BANKERS, INSURANCE COMPANIES) SUGGEST BOTH APPOINTMENTS SCHEDULE AND SPEECH DID NOT OVERCOME WAIT-AND-SEE ATTITUDE WALL STREET HAS UP TO NOW ADOPTED ON PQ.

3. MANY NEW YORK FINANCIERS WERE SHOCKED BY REALIZATION THAT LEVESQUE MEANS BUSINESS ON SEPARATION; MANY HAD THOUGHT THAT "SOCIALISM IS THE ISSUE" AND THAT INDEPENDENCE WAS MORE BARGAINING STANCE THAN HARD POLICY. REPORTS FROM PRIVATE MEETINGS DESCRIBED REACTION TO LEVESQUE'S PITCH ON SEPARATION, INCLUDING ITS REFERENCES TO DECLARATION OF INDEPENDENCE, AS RUNNING FROM "COOL OR EVEN HOSTILE TO PASSIVE." ONE KEY FIGURE TOLD LEVESQUE DIRECTLY THAT SEPARATION WOULD BE "TRAGEDY FOR BOTH COUNTRIES."

4. MOST WALL STREET CONTACTS REGARD LEVESQUE'S STATEMENTS ON HIS ECONOMIC POLICY (LID ON SPENDING, LESS RESORT TO BORROWING, NO NATIONALIZATION OF INDUSTRY EXCEPT IN ASBESTOS -- AND POSSIBLY NOT EVEN THERE, HE SAID IN PRIVATE -- RESPECT FOR INDEPENDENCE OF HYDRO QUEBEC, WILLINGNESS TO ACCEPT MONETARY UNION WITH CANADA) AS MODERATELY REASSURING. BUT SHOCK OF LEVESQUE'S SEPARATION PITCH DOMINATES FIRST REACTIONS.

5. REGARDING FUTURE BORROWING, UNDERWRITING OPINION IS DIVIDED. SOME BELIEVE HYDRO QUEBEC (BUT NOT PROVINCE ITSELF) CAN COME INTO MARKET IN TWO OR THREE MONTHS (ALTHOUGH AT SOMETHING LIKE CURRENT 100 BASE POINTS DISCOUNT VIS-A-VIS HYDRO ONTARIO). OTHERS THINK THAT IT WOULD BE UNWISE FOR EVEN HYDRO TO TRY MARKET AT ANY EARLY POINT. BANKERS AND INSURANCE COMPANIES ARE LIMITED OFFICIAL USE

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TRYING TO SORT OUT THEIR IMPRESSIONS BUT ARE OF NO IMMEDIATE DISPOSITION TO SUSPEND "WAIT-AND-SEE" HOLD ON ANY ACTION. SOME BELIEVE PROVINCE COULD NOT REPEAT NOT BORROW IN ITS OWN NAME FROM NEW YORK CAPITAL MARKET AT PRESENT. HOWEVER, SOME DO NOT EXCLUDE POSSIBLE QUEBEC PROVINCE BORROWING IN EUROPE (WHERE LEADERS HAVE NO LARGE ACCUMULATION OF QUEBEC PAPER), OR AT RELATIVELY SHORT TERM, OR IN SMALL AMOUNTS ON WALL STREET.

6. TO JUDGE FROM THESE FIRST REACTIONS, LEVESQUE'S TACTIC OF BRINGING INDEPENDENCE HOME TO NEW YORK BANKERS AND COUNTING ON THEIR INNATE SYMPATHY, WHILE TRYING TO LAY TO REST FEARS OF SOCIALISM, HAS BACKFIRED. IT REMAINS TO BE SEEN, OF COURSE, WHAT REACTION WILL BE IN NEW YORK ONCE THE SHOCK EFFECT HAS WORN OFF. INSURANCE COMPANIES, UNDERWRITERS AND BANKS HAVE A TREMENDOUS STAKE IN QUEBEC, NOT ONLY IN PAPER OUTSTANDING BUT AS MAJOR POTENTIAL MARKET FOR FUTURE. MANY FIND THEIR INTEREST BEST SERVED BY COMING TO TERMS WITH PQ.

CANADIAN REACTION

7. INSIDE QUEBEC, PRELIMINARY SOUNDINGS BY CONGEN QUEBEC INDICATE THAT LEVESQUE'S PQ SUPPORTERS WERE PLEASED WITH POLITICAL ASPECTS OF SPEECH, PARTICULARLY ITS STRONG EMPHASIS ON INDEPENDENCE. HOWEVER, OFFICIALS IN INTER-GOVERNMENTAL AFFAIRS MINISTRY WHO ARRANGED VISIT TOLD CONGEN THEY RECOGNIZED THAT ECONOMIC ASPECTS OF SPEECH WERE NOT SUFFICIENTLY DETAILED TO SATISFY FINANCIAL COMMUNITY, BUT BALANCE WAS CONSCIOUSLY STRUCK TO REACH BROADER AUDIENCE, I.E., CANADIANS BOTH IN QUEBEC AND ACROSS COUNTRY. IN ADDITION, RADICAL FRINGE OF PARTY CRITICIZED

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LEVESQUE FOR PROSTITUTING HIMSELF BEFORE FOREIGN CAPITALISTS, BUT VAST MAJORITY WERE PLEASED TO HAVE THEIR LEADER PERFORMING EFFECTIVELY AND WITH CONFIDENCE ON INTERNATIONAL STAGE. (FULLER ANALYSIS FOLLOWS BY SEPTTEL FROM CONGEN QUEBEC.)

8. OUTSIDE QUEBEC, REACTION OF CANADIANS TO LEVESQUE'S SPEECH WAS CRITICAL, PARTICULARLY OF HIS EASY ASSUMPTIONS THAT INDEPENDENCE FOR QUEBEC IS INEVITABLE AND THAT REST OF CANADA WILL READILY ACCEPT CUSTOMS OR MONETARY UNION WITH AN INDEPENDENT QUEBEC. IN HIS PRESS CONFERENCE TODAY, TRUDEAU TOOK SHARP ISSUE WITH LEVESQUE ON BOTH POINTS. HE DECLARED THAT HE MIGHT HOLD NATIONAL REFERENDUM ON CONCEPT OF MONETARY UNION WITH QUEBEC, BUT HE ADDED SUCH REFERENDUM WOULD PROBABLY BE UNNECESSARY BECAUSE QUEBEC'S SEPARATION WILL NEVER OCCUR. EARLIER TODAY IN PARLIAMENT, TRUDEAU REFUSED TO BE DRAWN OUT BY OPPOSITION ON WHAT NEW, IF ANY, STEPS HIS GOVERNMENT INTENDED TO TAKE TO COUNTER "PROPAGANDA" IN LEVESQUE'S NEW YORK SPEECH. HE ARGUED, AS HE HAS SINCE

NOVEMBER 15, THAT NO NEW POLICIES ARE NEEDED; RATHER, IT IS ESSENTIAL TO MAKE PRESENT PROGRAMS WORKABLE, PARTICULARLY BILINGUALISM. JOE CLARK, WHO WAS ABSENT FROM PARLIAMENT, HAS NOT YET COMMENTED ON LEVESQUE'S SPEECH, BUT NDP LEADER BROADBENT LIMITED OFFICIAL USE

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STATED THAT HE, PRIME MINISTER, AND CLARK MUST BEGIN "TO WAGE IN SERIOUS WAY A COUNTER-ARGUMENT TO MR. LEVESQUE -- NOT IN NEW YORK, BUT IN QUEBEC". FROM NUMBER OF JOURNALISTS AND OTHER OBSERVERS, WE HAVE IMPRESSION MOST CANADIANS ARE PLEASED THAT LEVESQUE'S NEW YORK FORAY WAS NOT MAJOR SUCCESS. AT SAME TIME THEY ARE CONVINCED ALL CANADA WILL HAVE TO PAY ECONOMIC PRICE FOR UNCERTAINTIES PRODUCED BY QUEBEC PROBLEM.

9. COMMENT: UNCERTAINTIES ABOUT QUEBEC'S FUTURE CLEARLY REMAIN IN MINDS OF NEW YORK FINANCIAL COMMUNITY AND MOST CANADIANS. SPEECH LEFT OPEN HOW STATED PQ GOALS OF GREATER SOCIAL JUSTICE AND LOWER UNEMPLOYMENT IN QUEBEC CAN BE RECONCILED IN FORESEEABLE FUTURE WITH STATED NEED TO PURSUE FISCAL BELT-TIGHTENING IN PROVINCE. ALSO UNMENTIONED WERE ANY ARGUMENTS WHICH MIGHT BE PRESENTED BY QUEBEC "TO OUR NEIGHBORS IN CANADA" (IN LEVESQUE'S PHRASE) TO INDUCE CONTINUATION OF ECONOMIC AND MONETARY UNION WITH AN INDEPENDENT REGIME.

10. PROVINCIAL FINANCES ARE SUCH THAT QUEBEC MAY WELL BE ABLE TO GET BY FOR SOME TIME WITHOUT RECOURSE TO FOREIGN BORROWING IN ITS OWN NAME. NEW YORK FORAY MAY HAVE LEFT LEVESQUE NOT MUCH WORSE OFF FINANCIALLY FOR THE NEAR TERM THAN BEFORE, BUT HE HAS MADE NO HEADWAY. UNQUESTIONABLY, HE INTENSIFIED PUBLIC DEBATE ON INDEPENDENCE ISSUE, MAKING UNMISTAKEABLY CLEAR PQ SERIOUSNESS IN PURSUING THIS GOAL.
ENDERS

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